

Message Text

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TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT
JULY 25, 1978

1. US-ASEAN PREPARATIONS (CONFIDENTIAL)

AN AGENDA AND SCHEDULE WITH PROPOSED ITEMS FOR EACH ITEM HAS BEEN PREPARED. AN ANNOTATED AGENDA, DRAWING ON A PRELIMINARY CLEARED SECTION OF EARLIER SCOPE PAPER AND TONY GEBER'S OBSERVATIONS FROM HIS MANILA TRIP, IS BEING CIRCULATED IN FINAL TODAY. BRIEFING MATERIALS ARE WELL ALONG AND WILL BE FINALIZED OVER THE NEXT FEW DAYS.

THE PRESIDENT'S DECISION TO MEET WITH THE ASEAN MINISTERS HAS HELPED TO OBTAIN CABINET LEVEL PARTICIPATION AND WE NOW HAVE SUFFICIENT CABINET LEVEL PARTICIPATION TO ASSURE THAT THE ASEAN MINISTERS RECEIVE TOP LEVEL ATTENTION.
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THE SECRETARY HAS AGREED TO CHAIR MOST OF THE FIRST DAY AND HOST THE THURSDAY DINNER. TREASURY STAFF INFORM US THAT MR. BLUMENTHAL WILL LIKELY CHAIR THE MORNING OF THE SECOND DAY AND HOST THE LUNCH, BUT THEY ARE UNCERTAIN OF THE FRIDAY AFTERNOON SESSION. WE ARE CONSEQUENTLY EXPLORING THE POSSIBILITY OF SECRETARY KREPS CHAIRING THE FINAL SESSION AND ARE PREPARING A LETTER FROM THE

SECRETARY TO MAKE THIS REQUEST OFFICIAL, SHOULD MR. BLUMENTHAL NOT BE AVAILABLE. SECRETARY SCHLESINGER

HAS AGREED TO HEAD THE DISCUSSION ON ENERGY COOPERATION, BUT WILL BE UNABLE TO PARTICIPATE IN ANY OTHER EVENTS. SECRETARY BERGLAND WILL PARTICIPATE IN THE OPENING AND SEVERAL SOCIAL EVENTS AS WELL AS HANDLING HIS AGENDA ITEM. WE HAVE NOT HEARD FROM VICE PRESIDENT'S OFFICE WHETHER MR. MONDALE WILL ATTEND THE CONCLUDING ASEAN DINNER AS THE GUEST OF HONOR, BUT WE ARE HOPEFUL THAT HE WILL BE ABLE TO DO SO.

MRS. MANALO HAS COMMENTED THAT OUR PROPOSED DRAFT PRESS STATEMENT IS VERY SUBSTANTIVE AND JUST WHAT IS NEEDED. THE PHILIPPINES WILL PRESENT IT TO THEIR ASEAN COLLEAGUES AS THEIR DRAFT. ROMULO'S DEPARTURE STATEMENT NOTED THE MEETING WITH PRESIDENT CARTER, CONGRESSIONAL, MEDIA AND BUSINESS REPS, DESCRIBING THESE AS MANIFESTATIONS OF THE IMPORTANCE THE US ATTACHES TO ASEAN. HE ADDED THAT ASEAN HOPES TO MAKE SUBSTANTIAL PROGRESS IN VARIOUS AREAS WHICH WILL CONSTITUTE INITIAL STEPS TOWARDS LONG RANGE COOPERATION BETWEEN THE US AND ASEAN. A SEPARATE CABLE POINTS OUT THE SERIOUS CONCERN WITH WHICH ASEAN VIEWS THE REFUGEE PROBLEM AND INDICATES THEY WILL PRESS US HARD TO DO MORE.

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2. INVESTMENT MISSIONS (LIMITED OFFICIAL USE)

PLANS ARE WELL ON TRACK FOR THE OPIC-SPONSORED INVESTMENT MISSION TO ASEAN OCTOBER 26-NOVEMBER 10. DURING ITS TRIP TO THE REGION, THE OPIC ADVANCE TEAM WORKED OUT WITH THE EMBASSIES A TENTATIVE TIMETABLE OF EVENTS FOR THE MISSION IN EACH CITY, AND RECRUITMENT WILL BEGIN SHORTLY.

WE HAVE A REPORT FROM KUALA LUMPUR THAT JAPAN IS ALSO PLANNING AN OFFICIALLY SPONSORED INVESTMENT MISSION TO ASEAN, PROBABLY IN SEPTEMBER OR EARLY OCTOBER. THE PURPOSE REPORTEDLY IS TO DETERMINE WHY JAPANESE INVESTMENT IN THE REGION HAS SLOWED DOWN.

THE MALAYSIA GOVERNMENT, FOR ITS PART, HAS SCHEDULED INVESTMENT MISSIONS TO THE US, SEPTEMBER 22-OCTOBER 12, AND JAPAN, IN LATE OCTOBER, BOTH LED BY THE DEPUTY PRIME MINISTER. OPIC IS GIVING FAVORABLE CONSIDERATION TO A MALAYSIAN GOVERNMENT REQUEST TO ASSIST THE MISSION ON ITS VISIT TO NEW YORK. A DINNER IN NEW YORK INVOLVING CHUCK ROBINSON, WHO WILL HEAD OPIC'S MISSION, HAS BEEN PROPOSED.

3. BONN SUMMIT -- GOJ PLEDGES (CONFIDENTIAL)

PRIME MINISTER FUKUDA PROMISED AT THE SUMMIT TO DOUBLE GOJ AID DURING THE THREE YEARS OF 1977-80. FUKUDA

INDICATED PRIVATELY A DESIRE TO INCREASE AID BY 50 PERCENT IN THE FIRST YEAR. HE ADDED THAT AID FLOWS WOULD BE DEFINED IN CONSTANT DOLLARS AND ANY SHORTFALL DUE TO FUTURE YEN APPRECIATION WOULD BE MADE UP WITH EXTRA AID. THIS WOULD BRING GOJ AID LEVELS TO ABOUT 3.4 MILLION DOLLARS IN 1980 IF REASONABLE ASSUMPTIONS ABOUT INFLATION AND THE DOLLAR EXCHANGE RATE ARE USED. FUKUDA ALSO INDICATED THAT IF JAPAN SEEMED TO BE FALLING SHORT OF ITS JFY 1978 GROWTH TARGET OF 7 PERCENT, HE WOULD LIKELY
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PROPOSE A SUPPLEMENTAL BUDGET IN THE EARLY FALL.

4. DOLLAR DEPRECIATES AGAINST MAJOR CURRENCIES
(UNCLASSIFIED)

THE DOLLAR EXCHANGE RATE BROKE THE PSYCHOLOGICAL BARRIER OF 200 YEN ON JULY 25. THE RATE ALSO DEPRECIATED AGAINST THE DEUTSCHEMARK, FRENCH AND SWISS FRANCS AND THE POUND STERLING. ANALYSTS POINT TO THREE FACTORS CAUSING THE DOLLAR DEPRECIATION: 1) US ECONOMIC DATA FOR THE LAST QUARTER INDICATED THAT THE ANNUAL INFLATION RATE BASED ON THE CPI EXCEEDED 10 PERCENT; 2) US REAL GROWTH FOR THE QUARTER WAS 7.4 PERCENT AT AN ANNUAL RATE, WHICH WAS LOWER THAN EXPECTED; AND 3) AN OPEC SPECIAL COMMITTEE RECOMMENDED ADOPTING A BASKET OF CURRENCIES FOR PRICING OIL RATHER THAN USING THE DOLLAR. TREASURY DOUBTS, HOWEVER, THAT OPEC WILL CHANGE TO THE BASKET BECAUSE SAUDI ARABIA FAVORS CONTINUED USE OF THE DOLLAR. A LONDON TIMES EDITORIAL COMMENTED THAT THE DOLLAR'S SLIDE IS PLACING SERIOUS STRAINS ON THE INTERNATIONAL ECONOMIC SYSTEM BY INCREASING THE CURRENT ACCOUNT SURPLUS IN TERMS OF DOLLARS OF JAPAN AND THE FRG AND MAKING IT DIFFICULT FOR THEM TO OBTAIN THE ECONOMIC GROWTH THAT IS REQUIRED. THE SLIDE, THE TIMES ADDS, AGGRAVATES PROTECTIONIST PRESSURES IN COUNTRIES WHICH ARE UNABLE TO COMPETE WITH THE DEVALUED DOLLAR AND UNDERMINES THE OPEC MODERATES WHICH HAVE OPPOSED A SUBSTANTIAL INCREASE IN OIL PRICES.

5. JAPANESE CONSORTIUM EXTENDS LOAN TO VIETNAM
(UNCLASSIFIED)

A CONSORTIUM OF JAPANESE BANK AND INSURANCE COMPANIES
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HAS AGREED TO A PRIVATE LOAN OF ABOUT 43 MILLION DOLLARS TO THE SRV. THE LOAN WILL ENABLE VIETNAM TO PURCHASE 100,000 MT OF STEEL MILL PRODUCTS FROM JAPAN. TERMS

CALL FOR SEVEN YEAR REPAYMENT, THREE YEAR GRACE AND A FLOATING INTEREST RATE OF ABOUT 3.5 PERCENT PLUS MARK-UP. NOW THAT ISSUE OF VIETNAM'S DEBT TO GOJ HAS BEEN SETTLED, JAPANESE FIRMS SEEM TO BE QUICKLY DEVELOPING COMMERCIAL RELATIONS WITH SRV.

6. UNCTAD V PREPARATIONS (LIMITED OFFICIAL USE)

EB HAS BEGUN PREPARATIONS FOR UNCTAD V WHICH WILL BE HELD IN MANILA NEXT MAY. A RECENT INTERAGENCY MEETING ASSIGNED PAPERS TO ANALYZE THE MAJOR NORTH/SOUTH ISSUES AND THE APPROACH THE US SHOULD TAKE TOWARD THEM. AGENCIES AGREED THAT THE US SHOULD MAKE A SPECIAL EFFORT TO WORK WITH GROUP B (I.E., THE INDUSTRIALIZED COUNTRIES) SO AS TO ADOPT A COORDINATED POSITION BEFORE THE MEETING AND TO ASSURE ADVANCED CONSULTATIONS ON ANY PROPOSED INITIATIVE. THE G-77 AND UNCTAD SECRETARIAT SEE THE CONFERENCE AS AN OPPORTUNITY TO PRESS THE DEVELOPED COUNTRIES TO ACCEPT ELEMENTS OF THE NEW INTERNATIONAL ECONOMIC ORDER. AS A RESULT, THE MANILA MEETING MAY UNAVOIDABLY RESULT IN ACRIMONIOUS DEBATE. WE DO NOT KNOW, HOWEVER, ON WHICH ISSUES THE G-77 WILL FOCUS. THE COMMON FUND WILL UNDOUBTEDLY BE IN THE FOREFRONT OF THE DEBATE IF NEGOTIATIONS ARE NOT COMPLETED BY THEN.

7. OECD XCSS CONSIDERS UN COMMITTEE OF THE WHOLE (LIMITED OFFICIAL USE)

XCSS JULY 18 MEETING CONSIDERED HOW TO BREAK THE IMPASSE BETWEEN DCS AND LDCS ON ROLE AND OPERATION OF THE COMMITTEE OF THE WHOLE (COW). US WANTS TO AVOID NEGOTIATIONS IN COW BUT TO DEVELOP IT INTO A SERIOUS CONFIDENTIAL

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FORUM TO REFLECT ON IDEAS. TO OBTAIN CREDIBILITY, THE US SUGGESTED REAPPRAISING POSITIONS AFTER COW CONSIDERATION WITHOUT MAKING A COMMITMENT TO CHANGE THEM. THE US PROPOSED SELECTING FOOD, ENERGY AND LOCAL COST FINANCING AS POSSIBLE ISSUES FOR REAPPRAISAL BUT XCSS COULD NOT REACH AGREEMENT ON THESE. UK RECOMMENDED THAT COW REVIEW OIL SUPPLY AND DEMAND PROSPECTS; THE DANES URGED THAT LDC FINANCING OF ENERGY DEVELOPMENT COULD BE A STARTING POINT FOR SUCH A REVIEW. THESE PROPOSALS RECEIVED CONSIDERABLE SUPPORT. THE FRENCH SUGGESTED USING COW TO PREPARE FOR MAJOR MEETINGS OF OTHER BODIES, PARTICULARLY UNCTAD V. THE FRENCH SUMMED UP DISCUSSION BY SAYING THAT COW WAS TURNING INTO A SELF-INFLICTED INSTRUMENT OF TORTURE FOR OECD COUNTRIES. FRANCE ADDED THAT THERE WAS LITTLE HOPE FOR COW IF G-77 CONTINUED TO SEEK TO MAKE IT A DECISION-TAKING BODY.

8. MTN (LIMITED OFFICIAL USE)

THE US TIMETABLE FOR MTN NEGOTIATIONS IS NOW BEING PREPARED. STAFF WORK AND DECISIONS ON POSSIBLE US IMPROVEMENTS, WITHDRAWALS AND FINAL US CLOSE OUT STRATEGY SHOULD BE COMPLETED BY THE FIRST WEEK IN SEPTEMBER AND THE ENTIRE REVISED US OFFER IS SCHEDULED TO BE IN LEGAL TERMS BY THE SECOND WEEK OF OCTOBER. DECEMBER 15 REMAINS THE NEW DEADLINE. CURRENT SENTIMENT IN EB IS THAT IMPORTANT ISSUES SUCH AS SELECTIVITY, AGRICULTURAL SUBSIDIES, AGRICULTURAL TARIFFS AND SOME SELECT INDUSTRIAL TARIFF ITEMS COULD REMAIN UNDECIDED RIGHT UP TO CHRISTMAS. THE PRESSURES FOR THE DECEMBER 15 DATE ARE 1) THE AGREEMENT AT THE BONN SUMMIT AND 2) THE EXPIRATION OF THE US COUNTERVAILING DUTY WAIVER IN JANUARY.

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WE HAVE PROPOSED THAT THE ASEAN COUNTRIES BRING THEIR TRADE NEGOTIATORS TO THE AUGUST 3-4 MINISTERIAL IN THE HOPE THAT FURTHER PROGRESS CAN BE MADE TOWARD BILATERAL MTN AGREEMENTS. SO FAR, WE HAVE POSITIVE RESPONSES FROM THE PHILIPPINES AND THAILAND AND A NON-COMMITAL ONE FROM SINGAPORE.

9. EXPORT CONTROLS (LIMITED OFFICIAL USE)

THE FOLLOWING WORDING IS THE RESULT OF AN INTERAGENCY REVIEW OF US EXPORT CONTROL POLICY. "THE DEPARTMENT OF COMMERCE, STATE, DEFENSE AND AGRICULTURE WOULD BE DIRECTED TO WEIGH EXPORT CONSEQUENCES AS A FACTOR, ALONG WITH OTHER FACTORS, WHEN CONSIDERING THE USE OF EXPORT CONTROLS FOR FOREIGN POLICY PURPOSES. PARTICULAR WEIGHT WOULD BE GIVEN TO WHETHER THE US GOODS IN QUESTION ARE ALSO AVAILABLE FROM COUNTRIES OTHER THAN THE US." THIS IS WATERED DOWN AT WHITE HOUSE REQUEST FROM COMMERCE'S ORIGINAL POSITION OF USING EXPORT CONTROLS FOR FOREIGN POLICY PURPOSES ONLY IN "EXTRAORDINARY CIRCUMSTANCES" AS DESCRIBED IN THE TASK FORCE REPORT ON COMMERCIAL ACTIVITIES. MR. CHRISTOPHER FEELS THAT THE STATE DEPARTMENT CAN SUPPORT THE REVISED WORDING. THE NSC IS STILL DEBATING ITS POSITION.

EB IS RECEIVING COMMENTS FROM OTHER BUREAUS TO ITS MEMORANDUM ON EXPORT CONTROLS. THE MEMORANDUM PROPOSES PROCEDURE FOR CONSIDERING POSSIBLE EXPORT CONTROLS TO ELIMINATE THE PRESENT SOMETIMES INORDINATE DELAYS, WHICH PARTICULARLY ACCOMPANY CASES BROUGHT UNDER DISCUSSION FOR HUMAN RIGHTS REASONS. VANCE

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